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SUBJECT: GREEK INDUSTRIES CHIEF ON THE ILLS THAT PLAGUE THE GREEK ECONOMY

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1. (SBU) Summary. The Ambassador met October 11 with Federation of Greek Industries (SEV) Chair Ulysses Kyriacopoulos to discuss the state of the Greek economy. Although the SEV Chair was broadly supportive of PM Karamanlis' rhetoric at the Thessaloniki trade fair, but he was critical of the government for how it was actually implementing its economic policies. Whether it be containment of public sector wages, tax policy, or employment policy, Kyriacopoulos did not hesitate to give the government bad marks. End Summary.

Thessaloniki Economic Speeches

2. (SBU) Kyriacopoulos repeatedly praised PM Karamanlis's Thessaloniki Trade Fair economic policy speech, noting that an SEV-drafted speech would not have looked much different. He stated, however, one concern: the PM's promise to keep in government employ the entirety of Olympic Airlines staff, regardless of performance level. This set a bad example for other public sector workers and highlighted the very different working conditions between the public and private sectors. The SEV Chair was far less complimentary about PASOK leader Papandreou's corresponding Trade Fair speech, calling it too long, too general, and not "punchy." He admitted having liked the opposition leader's stress on the importance of education, however. Kyriacopoulos noted he would have advised Papandreou to push much harder now for educational reform; assuming he ever became PM, Papandreou would benefit tremendously from having tried to get change going now, rather than waiting. This was a lesson PM Karamanlis was learning now vis-a-vis pension reform, which was taking much longer than the PM had expected.

The Economic and Business Climate: Bad

3. (SBU) Kyriacopoulos was unimpressed regarding the state of economic policy. The government had just "let the 2004 deficit go" in the hopes that it was easier to blame previous PM Simitis rather than make any fundamental changes. This year's deficit could reach almost as high as 2004, in view of the EC's reluctance to approve the use of debt securitization in either 2005 or 2006. Kyriacopoulos said he was in any case extremely sceptical that FinMin Alogoskoufis would be able to collect all the revenues upon which the securitization was based. The deficit problem was just a symptom of a larger disease: "The Greek government is not able to reform itself." Kyriacopoulos pointed to the problem of labor reform. FinMin Alogoskoufis' promise to keep wage growth in the public sector to 2.5% (which really meant 3.5% in view of the automatic increase in personal wages as employees moved up the career ladder) was just a small beginning. What about cutting the actual size of the public sector? Kyriacopoulos saw no movement on that front: "There's the same number of ministries with the same number of workers." He savaged the GoG's plans to "reinvent government" as full of hot air: "What are they talking about? 'New Ethics'; 'New R&D' It's nothing." A true reinvention would result in a much leaner and more agile body of workers who actually worked. It would eliminate bureaucracy, create clear rules, reform land use regulations, etc.

4. (SBU) The SEV Chief also savaged current GoG tax policy, particularly with respect to tax audits. Noting that the budget contained an item "Tax Collections from Previous Years," valued at approximately 2.5 billion Euro, Kyriacopoulos explained that the GoG pressured government tax collectors to make the "quotas" necessary to bring in this amount of revenue. This meant that almost any tax audit turned up discrepancies, which were usually of an entirely unpredictable nature. As a result, businessmen had literally no idea what their effective tax rate would be from one year to the next. This was particularly difficult for foreign companies potentially interested in investing in Greece to understand. Moreover, the SEV Chief noted, the real problem vis-a-vis tax collection was exposing the black economy, something the GoG had not focussed on adequately.

15. (SBU) To provide examples of the need for urgent labor reform, Kyriacopoulos outlined the Greek Government's legal rights to appoint up to 8% of the work force of a private/private company employing more than 50 people. At least 4% of the work force should be handicapped, and the GoG had the right to decide who those 4% should be. The other 4% should be made up of children of large families and Greeks who had fought in the resistance. Once again, the GoG had the right to decide who these people were. As Kyriacopoulos admitted, the GoG rarely exercised this right, but that it could do so added a large degree of unnecessary uncertainty to corporate planning. This was typical, he felt, of the current state of how businesses operated in Greece.

SEV's Image Has Suffered under ND

16. (SBU) Kyriacopoulos said SEV's image had actually suffered under the New Democracy government. It had maintained good relations with the Simitis government, which had actually used some of the organization's ideas. Under the current government, however, the press (which Kyriacopoulos maintained was in the pocket of PASOK) was claiming that "economic policy is run out of Zenophontos street (SEV's address), with the government simply implementing SEV policies."

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